

# Perspectives

FOR ACTIVE  
MEMBERS  
OF THE  
NORTH DAKOTA  
PUBLIC  
EMPLOYEES  
RETIREMENT  
SYSTEM

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Jon Strinden

Chairman

Sandi Tabor

Attorney General Appointee

State Health Officer

### Members Elected:

Ron Leingang, Howard G. Sage,  
David Gunkel, Weldee Baetsch

Sparb Collins

Executive Director

Kathy M. Allen

Editor

## EGTRRA ECONOMIC GROWTH & TAX RELIEF RECONCILIATION ACT

The EGTRRA, passed earlier this summer, will expand retirement savings opportunities for American workers. The bill contains provisions that increase contribution limits, assists individuals to “catch-up” on late or delayed retirement strategies, and simplifies distribution rules for Section 457 deferred compensation plans. On page 5 is a list of some of the significant changes that apply to the State’s Section 457 Deferred Compensation Plan. The NDPERS Board has approved the new provisions and staff is preparing for implementation. Most of the proposals are effective on or after January 1, 2002. However, some of the provisions need additional guidance from Treasury or legislative authorization.

## Annual Dental Enrollment

The annual open enrollment for the ReliaStar group dental plan will be from October 1 through October 31, 2001. The enrollment is for employees who did not enroll when they were initially eligible.

The group dental plan is available to employees of state agencies and the university system. Plan information and Voluntary Dental Enrollment Forms are available through your payroll/human resources office. In addition, an outline of the dental plan is on the NDPERS web site under *Insurance Plans, Voluntary Dental, Annual Enrollment Active Employees*. Applications cannot be dated prior to October 1 and must be submitted to your payroll office no later than October 31. Coverage is effective January 1, 2002.



## Deferred Comp Contribution Limits Increased

Effective January 1, 2002, the contribution limit for participants in the NDPERS Deferred Compensation plan will change. Included in the EGTRRA is a provision that changes the annual contribution limit from the lesser of 25% of taxable income before 457 deferrals to a maximum of \$8,500, to the lesser of 50% of taxable income, before 457 deferrals to a maximum of \$11,000. This \$2,500 increase brings 457 plans up to the same level as 401(k) and 403(b) plans. The plan limits will increase by \$1,000 a year beginning in 2003 through 2006 and will be indexed for inflation in \$500 increments after 2006.

These new limits will provide individuals an additional opportunity to increase their supplemental retirement savings.

## Governor Appoints New Board Chairman

Governor John Hoeven appointed Jon E. Strinden as Chairman to the NDPERS Board. The appointment is for a term of five years ending June 30, 2006. Jon is currently a partner in the Corporate group at Dorsey & Whitney, LLP in Fargo.

## Life Insurance Enrollment Change

NDPERS is working on the details of a plan to realign the open enrollment periods we currently have throughout the year to one annual enrollment period. This will make the process more comprehensive and efficient for our members. As part of this plan, we will no longer offer two life insurance enrollment periods as we have in the past. The upcoming November 1st through November 30th enrollment is your next opportunity to apply for additional employee supplemental, dependent, or spouse supplemental life insurance coverage. Beginning in the year 2002 and each year thereafter, the life annual enrollment will coincide with the Flex-Comp and Dental annual enrollment conducted in the Fall each year.

If you want to apply for increased coverage during the upcoming annual enrollment, you must obtain a Group Life Insurance Application [SFN 51144] and a ReliaStar Group Evidence of Insurability form from your payroll office. The forms cannot be dated or submitted prior to November 1 and must be returned to your payroll office no later than November 30, 2001. Please contact your payroll office for the proper forms. The coverage will become effective the first of the month following approval by ReliaStar.

Please remember, it is important that you respond to requests from ReliaStar for additional information in a timely manner so that your application can be processed as soon as possible.

## Board Approves Change to Actuarial Tables for Joint and Survivor Calculation

The PERS Board and its actuary the Segal Company completed a review of the methodology used to calculate the Joint and Survivor (J & S) benefits. If selected by the member, this benefit is actuarially reduced since the benefit is expected to be paid out over a longer time period (two lives instead of one). PERS presently uses an age-difference table to determine the benefit if a J & S option is selected.

The alternative method suggested by the Segal Company is using an age-based table instead of the current age-difference table. Segal noted that the age-based table is the most common method used by retirement plans and that, actuarially, it is the most precise method. They also noted that the current method favors those that first retire over age 65 whereas the proposed new table favors those who retire prior to age 65. Segal noted that although the new table favors those who retire before age 65, it is closer to actuarial equivalence than the present table.

The Board decided to move forward with changing to the new age based table and set a goal of implementing this change in spring of 2002 – the target date is April 1. With this approval by the Board, Segal is now developing the new tables.

## New Online Services at BCBSND.com

Employees covered under Blue Cross Blue Shield of North Dakota insurance plans can now find abundant plan information and services on the corporate web site, BCBSND.com. They can also log on as a registered user to access personal information about their coverage and their account.

In BCBSND.com's Member Services section, members can download and print copies of "every BCBSND form you'll ever need," find a sales representative in their region, access the current drug formulary list, read definitions of confusing insurance terms, and much more.

To become a registered site user, simply log on to [members.BCBSND.com](http://members.BCBSND.com) and follow the instructions under "Create a New Member Profile." (Registration requires a member's BCBSND ID number located on the

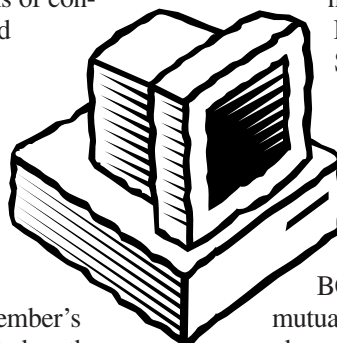
BCBSND ID card.) As a registered site user, members can:

- Inquire about out-of-pocket expenses.
- Check plan eligibility dates.
- Request a new ID card.
- Change their address.
- Request a benefit plan book.
- E-mail questions to BCBS member service representatives.

Other member features will be added soon.

Along with the new online service, BCBSND also recently changed the name of its Customer Service Department to "Member Services." The new name reflects the fact that "our members are more than customers, they own our company," said BCBSND Communications Vice President Larry Gauper.

BCBSND is a non-profit mutual company owned by its members.



# NEW OPTIONS

## New Fund Options Added To Defined Contribution Plan

The PERS Board has approved the addition of 7 new mutual fund options to the defined contribution plan effective October 1 of this year. These new funds will give the participants of this retirement plan additional investment options. For information on these funds go to the PERS Web Site under "Retirement Plan" and "Defined Contribution Plan" and then select "Defined Contribution Investment Funds." Here you will find links to Morningstar.com for information on each of the funds. The new funds are:

1. Fidelity Dividend Growth Fund
2. Fidelity Blue Chip Growth
3. Fidelity Mid Cap Stock Fund
4. INVESCO Dynamics Inv.
5. Fidelity Low Price Stock Fund
6. MSDW Growth B Fund
7. Strong Opportunity Inv. and Mutual Shares A

## Defined Contribution Plan Mutual Fund Window Available

The PERS Board approved a mutual fund window for members of the Defined Contribution Plan that will be available beginning in October. This will allow participants to select from a broad array of Fidelity mutual funds. Members who are interested in this option should contact Fidelity.

## Deferred Compensation Tax Credit

One of the provisions of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001 provides for a tax credit for plan contributions. Beginning in 2002 and expiring after 2006, a tax credit is available to individuals in specific income categories who make pretax contributions to a Section



## Companion Plan New Fund Options

The PERS Board has added 13 new funds to the PERS Companion Plan. These new funds will add additional styles to the mix presently available. The new funds are:

1. Vanguard Value Index
2. Davis NY Venture A
3. Warburg Pincus Cap Apr Fund
4. Strong Opportunity Inv. and Mutual Shares A
5. Vanguard Mid Cap Index
6. INVESCO Dynamics Inv
7. PIMCO Small Cap Value Fund and Turner Small Cap Value
8. Franklin Small Cap Growth Fund
9. Janis Balanced

The Board also approved the addition of the following bond funds for the Companion Plan:

10. Vanguard High-Yield Corporate
11. Vanguard GNMA
12. Vanguard Short Term Treasury
13. Vanguard Int-term Corp.

More information on these funds is available on the PERS Web Site under "Deferred Comp" and then selecting "Companion Plan". Here you will find links to the Morningstar.com information for the funds.

## Prescription Drugs Removed from Formulary

The BCBSND pharmacy committee made up of North Dakota physicians, pharmacists, and BCBS staff regularly reviews all prescription drugs on the formulary list. Based on its last review, the committee recommended that 10 drugs be removed from the formulary list effective September 1, 2001. The drugs fall into the category of respiratory agents.

Following is a list of the drugs that are no longer in the formulary:

Aerobid/Aerobid-M	Alupent
Quibron	Theolair
Theo-24	Theolair-SR
Theochron	Uni-dur

BCBS sent letters to all NDPERS subscribers that currently use these drugs. The letter identified the drugs currently used and the available alternative drugs that are on the formulary list. It also provided an appeal procedure if there was no appropriate alternative to the prescription drug. If you are on one of the above drugs and did not receive a letter, please contact the NDPERS Service Unit at BCBSND at 1-800-223-1704.



# Future Direction for PERS Defined Benefit Plan

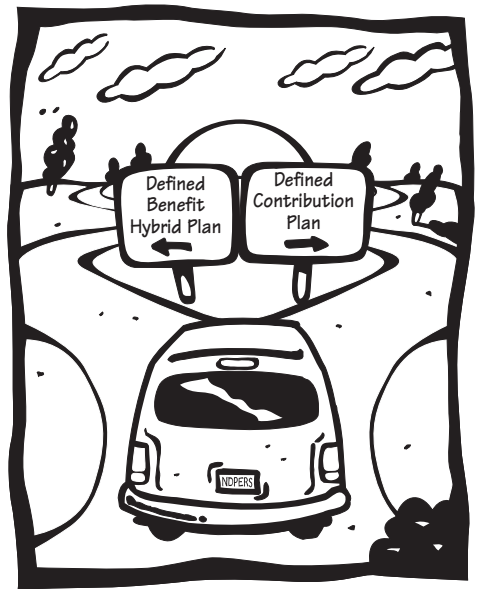
The PERS Board and its Benefits Committee has been reviewing concepts relating to the future direction of the Defined Benefit Plan. This last session the plan reached its long time goal of providing a retirement income of 90% of final average salary, including social security, to the career employee (25 years of service). This breaks down to 50% from PERS and 40% from Social Security. With the approval of a 2% multiplier PERS has met its goal of 50% (25 years times 2% = 50%). The question now being addressed is what direction should the plan pursue in upcoming years. The following general goals are being reviewed:

- To continue to increase the multiplier with a goal of 2.5% so that a career employee with 20 years of service would receive 90% of final average salary at retirement (20 years times 2.5% = 50% from PERS plus 40% from Social Security).
- To increase the disability retirement income.
- To establish a mechanism to insure that cost of living adjustments are provided on a regular basis to all

retired members now and in the future.

- To develop more options on how a member can access, contribute, supplement and draw their retirement funds (i.e. lower purchase costs, partial lump sum benefit at retirement, have a joint and survivor benefit as part of the level social security option, allow members to draw retirement and continue to work, revise definition of final average salary, etc.).
- To provide incentives and rewards to members who engage in supplemental retirement savings (allow members who participate in the deferred comp plan to get a higher retirement benefit in the defined benefit plan or lower purchase costs).

Specific options have been developed relating to all the above goals. You can view them on the PERS Web Site under "News" and "Defined Benefit Plan Options". The PERS Board welcomes your thoughts on these options. Please e-mail us with your ideas or feel free to copy the list, rank the options, and send it to us.



*Non-classified employees eligible for the "special window" election option must return election forms to NDPERS by December 14.*

## Defined Benefit Plan Investment Managers Intact

As we sort out the aftermath of the recent attacks on the United States, we must recognize that many investment firms were negatively impacted. Losses of personnel, facilities and systems were incurred. This aspect of the tragedy is of particular interest to participants in the investment markets.

In the time since the September 11th assault on our nation, the Retirement and Investment Office (RIO), on behalf of the State Investment Board (SIB) and its participating funds, has maintained continuous communications with its many independent external investment managers. The twenty managers employed by the SIB are geographically distributed throughout the United States. Two of the managers are located in New York City, none are in Washington D.C. Without exception, all firms have reported no loss of life and no operational impairment. In addition to this, while the SIB has approximately \$210 million in real estate holdings, none of the investment properties are located in lower Manhattan. We are fortunate, for many have not been so lucky.

## Fred Alger Small Cap Fund Placed on Review by PERS Board

At its July meeting, the PERS Board placed the Fred Alger Small Cap fund under review. This fund is available to members of the Defined Contribution Plan. The Board took this action because the funds investment style was changing and the fund did not meet its benchmark for several quarters. Placed on review means that the fund will continue to be available to members who are already in this fund, but it will not be available to new participants.

Also on the PERS Web Site under "Retirement Plans" and "Defined Contribution Plan" is a press release from the Fred Alger Firm. Its office was located in the World Trade Center Tower and the press release addresses the future plans of the firm.



## 5 Economic Growth and Tax Reconciliation Act (EGTRRA)

Current Law	New Law																																																	
Contributions under an eligible deferred compensation plan are limited to the lesser of \$7,500 or 331/3% of the employee’s compensation. The contribution limit is indexed for inflation in \$500 increments. Indexing raised the limit to \$8,500 in 2001.	<p>The maximum contribution limit is increased to \$15,000 over five years.</p> <table><tr><th>YEAR</th><th>CONTRIBUTION LIMITS</th></tr><tr><td>2002</td><td>\$11,000</td></tr><tr><td>2003</td><td>\$12,000</td></tr><tr><td>2004</td><td>\$13,000</td></tr><tr><td>2005</td><td>\$14,000</td></tr><tr><td>2006</td><td>\$15,000</td></tr></table> <p>The limit will be indexed for inflation in \$500 increments after 2006. The 33-1/3% of compensation limitation is increased to 100% in 2002.</p>	YEAR	CONTRIBUTION LIMITS	2002	\$11,000	2003	\$12,000	2004	\$13,000	2005	\$14,000	2006	\$15,000																																					
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A limited 457 catch-up rule allows contributions of up to \$15,000 for the tree years preceding the employee’s normal retirement age if maximum contributions have not been made previously.	<p>Beginning in 2002, participants who are age 50 or older will be allowed to make catch-up contributions, phased in over 5 years.</p> <table><tr><th>YEAR</th><th>AGE 50 CATCH-UP CONTRIBUTION LIMITS</th></tr><tr><td>2002</td><td>\$1,000</td></tr><tr><td>2003</td><td>\$2,000</td></tr><tr><td>2004</td><td>\$3,000</td></tr><tr><td>2005</td><td>\$4,000</td></tr><tr><td>2006</td><td>\$5,000</td></tr></table> <p>The limit will be indexed for inflation in \$500 increments after 2006. As an alternative to the age 50 catch-up, a 457 plan participant is eligible to defer up to double the regular deferral limit in effect for the 3 years preceding the employee’s normal retirement age.</p>	YEAR	AGE 50 CATCH-UP CONTRIBUTION LIMITS	2002	\$1,000	2003	\$2,000	2004	\$3,000	2005	\$4,000	2006	\$5,000																																					
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No provision	<p>Beginning in 2002 and expiring after 2006, a tax credit is available to individuals in specific income categories who make pretax contributions. The credit is calculated as a percentage of the first \$2,000 contributed, and the percentage is based upon the adjusted gross income.</p> <table><tr><th colspan="6"></th><th>APPLICABLE PERCENTAGE</th></tr><tr><th colspan="2">JOINT FILERS</th><th colspan="2">HEAD OF HOUSEHOLD</th><th colspan="2">ALL OTHER FILERS</th><th></th></tr><tr><th>Over</th><th>Not Over</th><th>Over</th><th>Not over</th><th>Over</th><th>Not Over</th><th></th></tr><tr><td>\$0</td><td>\$30,000</td><td>\$0</td><td>\$22,500</td><td>\$0</td><td>\$15,000</td><td>50%</td></tr><tr><td>\$30,000</td><td>\$32,500</td><td>\$22,500</td><td>\$24,375</td><td>\$15,000</td><td>\$16,250</td><td>20%</td></tr><tr><td>\$32,500</td><td>\$50,000</td><td>\$37,500</td><td>\$37,500</td><td>\$16,250</td><td>\$25,000</td><td>10%</td></tr><tr><td>\$50,000</td><td></td><td>\$37,500</td><td></td><td>\$25,000</td><td></td><td>0%</td></tr></table>							APPLICABLE PERCENTAGE	JOINT FILERS		HEAD OF HOUSEHOLD		ALL OTHER FILERS			Over	Not Over	Over	Not over	Over	Not Over		\$0	\$30,000	\$0	\$22,500	\$0	\$15,000	50%	\$30,000	\$32,500	\$22,500	\$24,375	\$15,000	\$16,250	20%	\$32,500	\$50,000	\$37,500	\$37,500	\$16,250	\$25,000	10%	\$50,000		\$37,500		\$25,000		0%
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Distributions to participants are reported on Form W-2 and are withheld under income tax table rates.	Beginning in 2002, distributions from governmental 457 plans will be reported on form 1099R and are subject to the withholding and reporting rules that apply to qualified plans and 403(b) plans.																																																	
Amounts distributed from 457 plans cannot be rolled over, but can be transferred tax-free to another 457(b)plan.	Beginning 2002, distributions from a governmental 457 plan are eligible for rollover to a governmental 457 plan, 403(b) plan, 401(a) retirement, profit sharing or stock bonus plan or an IRA																																																	
No provision for rollovers, but a 457 plan may accept tax-free transfers from another 457 plan.	Beginning in 2002, governmental 457 plans may, but are not required to accept rollovers of distributions from a governmental 457 plan, 401(a) retirement, profit sharing or stock bonus plan, or a 403(b) plan. (Implementation is subject to guidance from the IRS)																																																	
No provision	Beginning 2002, funds from a 457 or 403(b) plan can be transferred to purchase permissive service credit in a defined benefit plan prior to refund of employee contributions.																																																	
<p>Benefits are taxable in the year “paid” or “otherwise made available”</p> <p>Benefit is not treated as “made available” merely because a participant may elect to defer commencement of distributions.</p> <p>Section 457 plans are subject to the minimum distribution rules applicable to tax-qualified pension plans. In addition, 457 plans also require;</p> <ul style="list-style-type: none"><li>• non-spousal beneficiaries must receive their benefit within 15 years.</li><li>• payments made over a period of more than one year can only be made in substantially non-increasing amounts.</li></ul>	Aligns the 457 plan minimum distribution rules with the rules applicable to qualified plans. This change eliminates the requirement that non-spousal beneficiaries receive their benefit within 15 years. It also eliminates the “substantially non-increasing” benefit prohibition. For governmental 457 plans, the Act liberalizes the distribution rules so that benefits are taxable for the year in which paid, not the year in which benefits are “otherwise made available.”																																																	

## FlexComp 2002 Plan Year

### *Annual Open Enrollment For State Employees and Participating District Health Units*

The annual open enrollment for the 2002 Plan Year will be from October 1, 2001 through November 15, 2001. Enrollment packets were mailed in September to all employees eligible to participate in the program. Please read the information carefully. It is intended to assist you in the enrollment process as well as provide you information about the plan. Enrollment forms must be returned to your payroll department by November 15.

If you have any questions about the FlexComp Program or the enrollment process, please contact your payroll/human resource department or the NDPERS FlexComp Coordinator at 1-800-803-7377 or 701-328-3910.

## FlexComp Reimbursement of Office Visit Co-pays

It is the policy of many health networks in the state to collect the office visit co-pay up front for all insurance plans that have an office visit co-pay in their schedule of benefits. Many networks issue a receipt for this co-payment. However, the IRS requires that a health flexible spending account may only reimburse an eligible medical expense after insurance has processed the claim. The participant must provide a copy of the Explanation of Benefits from their health insurance carrier indicating the co-payment, deductible, and co-insurance amounts not covered by insurance. Co-payment receipts from the provider are considered insufficient documentation for payment under the plan and we are required to deny reimbursement of your claim.

*Remember to visit and browse our website at*

**discovernd.com/ndpers**

*for information about NDPERS and its programs and operations.*

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